

A Submission from the Rental Housing Co-operatives Sector

in response to the Victorian Government's Public Consultation Papers:

***Pathways to a Fair and Sustainable Social Housing System, April 2012 and
Social Housing, a Discussion Paper on the Options to Improve the Supply of
Quality Housing, KPMG, April 2012***

The Rental Housing Co-operatives sector welcomes the opportunity to respond to the Victorian Government's discussion papers on the future of the social housing system in Victoria, and to further discuss its future role in the provision of social housing with Government.

This submission proposes that Rental Housing Co-operatives, as financially sustainable models of social housing provision, play an important role in improving access to secure and affordable housing for low income households in Victoria, delivering social and economic benefits for tenant members and Government; and add to the mix of housing choices in the Victorian social housing system.

The key achievements of Rental Housing Co-operatives have been, and remain, financial sustainability and the delivery of economic and social benefits to the community. These outcomes depend upon a viable tenant mix, security of tenure and building the capacity of tenant members to participate in the management of their organisations.

The Rental Housing Co-operatives sector seeks to work with the Victorian Government to further develop its important role in providing affordable housing for low income households. This could include participation on a state-wide social housing taskforce to develop a renewed social housing system and reaching agreement on the key features of any future arrangements between the Department of Human Services and the sector.

In Victoria, a diverse range of Rental Housing Co-operatives have provided fair and sustainable models of social housing for low income households since the 1970s. The Victorian Ministry of Housing established the Rental Housing Co-operative Program in the early 1980s. The program was, and remains, a highly successful initiative of the Kennett Liberal Government.

In metropolitan and rural areas across Victoria, rental housing co-operatives currently provide affordable housing to over 6,000 people, including 2,240 children, across 2,500 properties.

The Rental Housing Co-operatives sector has an important role to play as part of the mix of housing options that can assist to renew the social housing system in Victoria. It demonstrated that investment in secure and affordable housing delivers social and economic benefits for tenant members and for government, helps to prevent the need for crisis accommodation and supports personal pathways out of poverty and dependency for low income people.

Rental Housing Co-operatives are fair and sustainable enterprises that:

- ✓ manage, own and develop secure and affordable housing, providing a wide range of housing services for tenant members;
- ✓ are financially sustainable not for profit enterprises which achieve consistent annual surpluses that are invested in improving existing homes and in new housing stock;
- ✓ have a mix of low to moderate income households as tenant members which support the development of financially viable organisations that are able to provide a range of economic and social benefits for tenant members;
- ✓ provide high quality and appropriate housing for different sized households and which have a capacity to adapt to the changing circumstances of their members;
- ✓ report high levels of tenant satisfaction;
- ✓ provide a secure home that can provide a basis for better health and education outcomes for families;
- ✓ create pathways to skills development, education and employment for tenant members;
- ✓ are flexible, adaptable and varied enterprises that involve tenant members in their governance and management of co-operatives; and,
- ✓ have significant capacity for innovation and growth.

The Rental Housing Co-operatives sector wishes to engage with Government to develop mutually beneficial agreements regarding its ongoing role as a provider of social housing. Key areas for future consideration in those agreements should include:

- ***the creation of opportunities for both growth through property title transfer and improved cash flow through outsourcing management and maintenance agreements;***

- *improvements to the Housing Provider Framework to more effectively manage housing stock and ensure high quality tenant services;*
- *assistance from Government to build the capacity of Rental Housing Co-operatives as they grow and require more professional skills to manage the increased complexity of the regulatory environment; and,*
- *fair and equitable terms that reflect Rental Housing Co-operatives sector's important role in providing social housing for those who are eligible for public housing and on the public housing waiting list.*

RENTAL HOUSING CO-OPERATIVES PROVIDE A GREAT RETURN ON INVESTMENT!

The recent *Social Value of Community Housing in Australia* paper found that the total monetary impact of the benefits of providing community housing in Australia over a five-year period, across economic, educational and health outcomes came to approximately \$644M¹.

A future social housing system needs to build on the success of community housing models, including the Rental Housing Co-operatives, ensuring these models are strengthened and have capacity to grow as an integral part of a renewed social housing system in Victoria.

However, new development, transfer and finance models are needed to improve the supply of quality affordable housing in Victoria that is fundamental to a more productive economy. Such models will assist in meeting the demand for secure and affordable housing for lower income households and in responding to those in housing crisis as well as those with high support needs and levels of disadvantage.

This submission draws primarily on two recent research reports into the value and benefits of community housing and, Rental Housing Co-operatives, in particular. These reports are attached to this submission. They are:

Co-operative (Rental) Housing – A neglected housing option in the midst of a housing crisis, commissioned by the Victorian Rental Housing Co-operative Sector, Borderlands (Jacques Boulet and Caroline Overbeek), 2012; and,

The Social Value of Community Housing in Australia, commissioned by the Community Housing Federation of Australia, Netbalance (Arjun Ravi and Chelsea Reinhardt), 2011.

¹ Ravi and Reinhardt, Netbalance 2011. The Social Value of Community Housing in Australia.

This submission is made on behalf of the Rental Housing Co-operatives Sector in Victoria.

Rental Housing Co-operatives

*Eastern Suburbs Rental Housing Co-operative
Northcote Rental Housing Co-operative
Northern Geelong Rental Housing Co-operative
Southeast Housing Co-operative
United Housing Co-operative
Williamstown Rental Housing Co-operative*

Common Equity Housing Limited

*on behalf of its Common Equity Rental
Co-operative (CERC) members and community
managed co-operatives*

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United Housing Co-operative Ltd.

On behalf of the

Rental Housing Co-operatives

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On behalf of

Common Equity Housing Limited

30 July 2012

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in response to the Victorian Government's Public Consultation Papers:

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1. INTRODUCTION

The crisis in housing affordability throughout Australia resulting from the long term advocacy by successive Federal Governments of a very narrow range of housing models - primarily private home ownership, private rental and public housing - and a lack of supply of affordable and appropriate housing has been well documented.²

The varying impacts have and continue to be:

- homelessness;
- financial housing stress in lower and middle income households due to lack of affordability in the home ownership and private rental markets;
- housing insecurity for low income earners in the private rental market;
- unsuitability of housing types, especially for single person households; and,
- long waiting lists for public housing.³

The difficulties of affordability in the private rental market were recently highlighted in a national snapshot audit of over 15,400 properties in greater metropolitan Melbourne. The audit found that no affordable and appropriate housing was available for single or couple households receiving income support or a minimum wage, 2% of properties were affordable and appropriate for single parents with two children on a minimum wage, and 35% were affordable and appropriate for couple households on a minimum wage and receiving Family Tax Benefit A.⁴

² Eslake, S. 2011 *Billions in handouts but nothing gained* in The Age Business Day 16 March; and *Time to change the unfair rules for negative gearing* in The Age Business Day 25 April.

³ Borderlands, Co-operative Rental Housing – A neglected housing option in the midst of a housing crisis, 2012.

⁴ Anglicare Australia, 2012. *Rental Affordability Snapshot*

Notwithstanding this situation, Rental Housing Co-operatives have been a financially and socially sustainable provider of social housing⁵ for Victorian low income households for over 35 years. 120 Rental Housing Co-operatives provide affordable housing to more than 6,000 people, including some 2,240 children, in 2,500 homes throughout Victoria. The Rental Housing Co-operatives sector has an important role to play in assisting to resolve the issues that have emerged in the Victorian public housing system over the last decade.

The public housing system is financially unsustainable due to an accumulative decline in revenue, incapacity to cover costs and poor asset management, a significant maintenance backlog and large portfolio of obsolete stock, difficulties in responding to the needs for public housing and, as a consequence, a poor reputation and lack of public confidence in the system⁶.

There is a diversity of successful rental housing co-operative models in Victoria. And the existing Rental Housing Co-operatives sector has demonstrated itself as a viable model of social housing, consistently delivering financial sustainability, social and economic benefits for tenant members, high levels of tenant satisfaction and a capacity to provide a diversity of secure and affordable housing for low income households in Victoria.

The key to the Rental Housing Co-operatives sector's successful performance is the provision of secure and mixed tenancies that underpin the financial viability of housing co-operatives. Rental Housing Co-operatives provide a stable base for families and individuals to learn skills, gain self-esteem and dignity, and to participate as active and contributing citizens in local communities without the threat of homelessness or the stresses of high and unaffordable housing costs.

⁵ This submission adopts the definitions of public, community and social housing described in the Victorian Government's discussion paper: *Pathways to a Fair and Sustainable Social Housing System* – see Appendix 1.

⁶ Victorian Auditor-General's Report, Access to Public Housing, March 2012

2. RENTAL HOUSING CO-OPERATIVES SECTOR

This submission proposes that Rental Housing Co-operatives, as fair and financially sustainable models of social housing provision, play an important role in improving access to secure and affordable housing for low income households in Victoria, delivering social and economic benefits for tenant members and government, and adding to the mix of housing choices in the Victorian social housing system.

Rental Housing Co-operatives are a unique component of a diverse community housing sector, and belong to a tradition of mutual benefit housing societies in Australia and overseas that emerged in Europe during the 1800s. Today, co-operative housing accounts for between 10 and 15% of housing in Sweden, Norway and Germany, and it is a growing housing sector in Canada, the USA and United Kingdom. In Victoria, Rental Housing Co-operatives have their roots in the co-operative housing societies of the post war period that financed up to 35% of housing construction in the 1950s.

There are over 210,000 housing co-operatives around the globe, with over 18 million properties and some 27 million members. 2012 is the International Year of Co-operatives, promoting and celebrating the role of co-operative enterprise internationally.

In Victoria, Rental Housing Co-operatives have provided fair and sustainable models of social housing for low income households since the 1970s. The Victorian Ministry of Housing established the Rental Housing Co-operative Program in the early 1980s. ***The program was, and remains, a highly successful initiative of the Kennett Liberal Government.***

Almost four decades later, the Rental Housing Co-operatives sector comprises two distinct groups in Victoria: Common Equity Housing Limited (CEHL) and the independent Rental Housing Co-operatives (RHCs). All Rental Housing Co-operatives are incorporated under the Victorian Co-operatives Act 1996. As providers of social housing, they are also registered with the Office of Registered Housing Agencies under the Victorian Housing Act 1983. CEHL is registered as a Housing Association and the Rental Housing Co-operatives as Housing Providers.

Common Equity Rental Co-operatives (CERCs)

Common Equity Housing Limited, a registered Housing Association, owns and manages 104 **Common Equity Rental Co-operatives (CERCs)** as well as 8 community managed co-operatives. These co-operatives have some 2,029 homes and 4,800 residents, with an asset value of \$660 million. Most CERCs have between 12 and 15 member households.

Rental Housing Co-operatives (RHCs)

Eight rental housing co-operatives, registered Housing Providers, manage some 488 homes and 1,300 residents. Most properties are leased from the Victorian Government through the Housing Provider Framework (HPF). Rental housing co-operatives vary in size from 30 to 160 member households.

Rental Housing Co-operatives are located throughout the Melbourne metropolitan region and in Geelong as well as other parts of regional Victoria including Ballarat, Bendigo, Colac, Latrobe Valley, Mildura, Shepparton, Warrambool, Woodend and Yarrawonga.

3. PATHWAYS TO A FAIR AND SUSTAINABLE SOCIAL HOUSING SYSTEM

An accessible, affordable and appropriate home is the foundation of a dignified life, but securing one has become difficult for many, and impossible for some.

The Housing Act 1983 has the objective of ensuring ***“that every person in Victoria has adequate and appropriate housing at a price within his or her means' and seek to meet that objective”***.

Amongst its objectives, the Act specifically seeks to:

- *provide in the public sector a variety of housing types in various locations;*
- *provide a regulatory framework to encourage the development of rental housing agencies serving the housing needs of low-income tenants;*
- *promote security and variety of tenure;*
- *seek the participation of tenants and other community groups in the management of public housing and non-trading co-operatives engaged in the provision of rental housing to their members.*⁷

The public housing system is in place to meet the housing needs of Victorians who cannot access the private market. The Department of Human Services (DHS) role is to assist Victorians on fixed and low incomes to access short-term and long-term housing.

For some Victorians, private rental and home ownership may not be an option, and because many Victorians on fixed and low incomes, social housing is the difference between a stable, secure future, and one that is characterised by housing stress and the risk of homelessness.

The core business of public housing is housing, not welfare! Whilst a welfare model has appeal to those advocating for special needs groups, or to governments concerned about rationing the limited supply of housing, it has numerous drawbacks including the need for both significant capital investment and recurring subsidies. It also leads to the concentration of disadvantage.

⁷ The Victorian Housing Act 1983 - see Appendix 2 for full list of Objects

A revised Housing Framework should commit the Government to the important role it plays in making available alternative housing options for those on the lowest incomes. It should:

- ✓ reject the notion that public housing exists to provide a safety net for those Victorians unable to afford or access the private housing market at particular times in their lives, and that it should be an extension of welfare provision rather than an essential service;
- ✓ seek to ensure all forms of public housing include the key features of being not for profit, financially sustainable, provide security of tenure and a diverse tenant profile;
- ✓ not assume that those living in, or who need access to, public housing require incentives to be *well behaved*. [*The Residential Tenancies Act 1997 (RTA) outlines a set of rights and duties that should be the foundation of the relationship between landlord and tenant. The Government is obliged to meet its obligations under the RTA*]. It is therefore not appropriate that public housing tenants should have access to fewer rights than those in the private rental market or should be obliged to conform to guidelines not set out in the RTA;
- ✓ recognise that some people require additional support (and therefore restore funding to SHASP services), and must provide other programs that are effective in working with at-risk tenancies;
- ✓ acknowledge that long term tenancies make for a better public housing system, giving tenants security and the foundation for a stable and fulfilling life that adds to the economic sustainability of the system; whilst limiting tenure has the potential to make the system less fair;
- ✓ continue to review rents for public housing tenancies on an annual basis in line with Market Rent, whilst noting that the impact of forcing ‘successful’ tenants out of public housing will inevitably result in a less sustainable public housing system, as those tenants who pay Market Rent provide a subsidy that supports lower income tenants and often act as role models, taking leadership roles in communities and contributing to public housing communities;

- ✓ acknowledge that the income received from rents by the public housing system is not sufficient to adequately maintain the stock to an acceptable standard and to fund long term asset renewal, and that, therefore, just as public hospitals and transport are not expected to cover all of their costs through fee for service nor should public housing.

4. A FUTURE SOCIAL HOUSING SYSTEM

Ensuring that there is a well funded and financially sustainable social housing system is essential, and supporting the further development of the community housing system is a key opportunity to effectively address housing supply issues.

Internationally, governments have long recognised that there are social and economic benefits for a society from being able to ensure that adequate and appropriate housing is provided for its citizens. In most countries, the market includes housing that is directly subsidised to improve access for households with low incomes and high needs through income support arrangements (such as rent assistance for low income households), grants to the providers of social housing, or through the direct provision of public housing.

The need to create more independent living housing options has also been identified as a key to freeing up existing crisis accommodation for high needs clients.⁸ A future social housing system needs to comprise a broad range of secure and affordable housing options that seek to avoid the creation of welfare dependent residential communities.

The provision of safe, secure and affordable housing for those who may otherwise not have access to it is one of the most fundamental instruments of a more productive economy. When housing costs are affordable for low income earners,

“Even a small increase in disposable income ... can translate into significant flow-on (secondary) benefits, as families are finally able to invest in ‘non-shelter’ needs such as health, education and employment. These investments in turn can produce substantial longer term benefits, and can help to break the cycle of poverty and government assistance.”⁹

⁸ AIHW 2011, *People turned away from government-funded specialist homelessness accommodation 2010-11*.

⁹ Ravi and Reinhardt, Netbalance 2011. *The Social Value of Community Housing in Australia*.

A fair and sustainable social housing system

A future social housing system will need to build on the success of community housing models, including the co-operative rental housing sector, ensuring these models are strengthened and have capacity to grow as an integral part of a renewed fair and sustainable social housing system in Victoria.

The renewal of the social housing system requires a reversal of the current trend to house people only after they have fallen through the safety net to an approach based upon preventative measures that reduce dependency on the welfare system, provide stability and a “*place to call home*”. It should be a fair and sustainable social housing system based upon:

- ✓ A longer term vision to rebuild the system over the next 20 years;
- ✓ An expanded and upgraded supply of social housing;
- ✓ Security of tenure as a basis for personal pathways to economic independence and improved social outcomes, and which prevent people from falling through the safety net;
- ✓ An appropriate tenant mix to strengthen overall social and financial sustainability;
- ✓ A variety of social housing models and housing providers that offer choices and pathways for low income households;
- ✓ A new model for responding to higher needs tenants that recognises their core requirement for housing and reinforces linkages to support systems; and,
- ✓ Tenants *having a say (or sense of ownership)* in the management of their housing.

5. HOUSING CO-OPERATIVES IN A RENEWED SOCIAL HOUSING SYSTEM

Rental Housing Co-operatives are part of the mix of housing options that can assist government in creating a fairer and more sustainable social housing system in Victoria.

Whilst Rental Housing Co-operatives may not be an option for all households in need of secure and affordable housing, there is a strong social and economic case for them to be supported as a housing choice within an integrated social housing system.

The sector wishes to work with the Victorian Government to further develop its role within the social housing system, building on the strengths of existing co-operative rental housing models. A future role for the Rental Housing Co-operatives sector should:

- ✓ assist Rental Housing Co-operatives to maintain their identities, independence and capacity to successfully manage their own enterprises;
- ✓ strengthen the capacity of co-operative rental housing as financially sustainable, efficient and accountable models that deliver benefits for low income households;
- ✓ ensure any growth strategies preserve the integrity of Rental Housing Co-operative models and build on those attributes that have contributed to financial sustainability and to economic and social benefits for both tenant members and Government over more than 35 years;
- ✓ provide opportunities for the sector to operate with a mix of models including ownership of properties (*through title transfer that would provide opportunities for leveraging retained earnings and private finance for growth*) and outsourced property 'stock' management arrangements that provide opportunities for economies of scale and improved cash flow, contributing to a viable enterprise;
- ✓ in accordance with the Victorian Co-operatives Act 1996, retain the ability of Rental Housing Co-operatives to select tenants based on their commitment to contribute to the co-operative, because this has been shown to be essential to building successful, financially viable organisations comprised of tenant members with a strong 'sense of ownership' and pride in 'their homes'; whilst recognising that public housing eligibility criteria will still need to be part of the selection process.

It is highly desirable that the Victorian Government and the sector work in partnership to further develop the proven capacity of Rental Housing Co-operatives to provide affordable housing for low income households. This could include participation on a state-wide social housing taskforce to develop a renewed social housing system and reach agreement on the key features of any future arrangements with Rental Housing Co-operatives sector.

6. RENTAL HOUSING CO-OPERATIVE MODELS

The range of Rental Housing Co-operative models - models that have demonstrated a strong financial performance and delivered social and economic benefits for low income tenants - can have an important role to play in renewing the social housing system in Victoria.

As has been acknowledged in the Victorian Government's discussion paper: *Pathways to a Fair and Sustainable Social Housing System*, the different models of community housing, of which Rental Housing Co-operatives are an integral part, have the following significant advantages in delivering social housing:

- *they are integrated into local communities;*
- *they are distributed widely across Melbourne and regional Victoria;*
- *their stock is generally newer and therefore more appropriate to tenants needs;*
- *their tenants are able to access other sources of income such as Commonwealth Rent Assistance;*
- *they have access to other sources of funds such as Commonwealth Government tax subsidies and philanthropic donations; and,*
- *they have often demonstrated a better and more tailored support to tenants that assists in promoting greater tenant integration with social and economic networks.*

Rental Housing Co-operatives provide a high level of participation for tenant residents, giving them greater control over their housing circumstances and a range of personal, social and economic benefits. By their very nature, Rental Housing Co-operatives are diverse and able to meet the needs of different member households in different localities.

The key achievements of Rental Housing Co-operatives have been, and remain, financial sustainability and the delivery of economic and social benefits. These outcomes depend upon a viable tenant mix, providing security of tenure to households and building the capacity of tenant members to participate in the management of their co-operatives.

Expanding the sector's potential as a significant social housing provider in Victoria requires the capacity to leverage finance for investment in new homes and ongoing government investment in affordable housing.

6.1 A FINANCIALLY SUSTAINABLE MODEL

Rental Housing Co-operatives have operated as a financially sustainable model of social housing provision for over 35 years in Victoria. They have:

- ✓ consistently achieved positive balance sheets and surpluses in the annual operations of their activities;
- ✓ demonstrated sound asset management practices that have sustained the value of their property portfolios;
- ✓ been able to meet the costs of staffing, training of volunteers, tenant participation initiatives and property maintenance;
- ✓ in many cases met the costs of capital upgrade works despite this not originally being a responsibility under the Housing Provider Framework;
- ✓ been able to service a 35% debt to equity ratio that has been amortised over the years and is now reduced to less than 11% of the initial stock investment;¹⁰
- ✓ required a government subsidy level that is less per unit than costs attributed to Office of Housing delivery for public housing;¹¹
- ✓ had the capacity to reinvest in the development of their co-operatives including:
 - upgrades to improve environmental efficiency (rainwater tanks, roof insulation, window sunshades, compost bins and energy saving measures) that reduce costs to tenants;
 - programs to develop the skills and capacities of tenant members as well as creating opportunities for personal development, employment and education; and,
 - housing renovations and new building programs [*Common Equity Housing Limited has expanded its housing portfolio by 25% since 2008 as a result of direct*

¹⁰ McInerney, J. 2007, *Rental Housing Co-operatives: More than Just Housing*.

¹¹ *ibid*

government grants and its capacity to leverage borrowings against its existing property portfolio].

- ✓ invested through their tenants in the development of their organisations, with tenants taking responsibility for organisational governance, administration and the contracting of professional property maintenance staff. *[The value of tenancy management and maintenance due to wear and tear undertaken by CERC members on a voluntary basis is estimated at \$2.4M in 2011];*
- ✓ had low vacancy rates, rent arrears and bad debts that have provided an efficient use of housing resources; and,
- ✓ developed systems that encourage members to use financial advisory programs and payment plans to assist in managing their finances and dealing with financial difficulties.

6.2 DELIVERING SOCIAL AND ECONOMIC BENEFITS

The social and economic benefits of community housing have been well documented. A recent quantification of the value of the social benefits derived from community housing was undertaken in 2011¹². This *Social Value of Community Housing in Australia* report found that the total monetary impact of the benefits of providing community housing in Australia over a five year period, across economic, educational and health outcomes came to approximately \$644M.

Rental Housing Co-operatives, as a form of community housing, provide tangible benefits in the form of tenant member empowerment.

The benefits of security and stability

Investment in community housing has been shown to lead to increased security, stability and control over one's life that delivers a range of benefits including:

- **Improvements in health and well-being.** 73% of community housing households report overall improved health as a result of more affordable and secure housing (for

¹² Ravi and Reinhardt, Netbalance 2011. The Social Value of Community Housing in Australia.

example, as a result of reduced anxiety as a result of threat of homelessness and financial stress, greater attention to healthier eating habits and health needs);¹³

- **A reduction in intergenerational welfare dependency** due to being able to establish a more stable and affordable environment for family life. An assessment of the savings to government of reduced welfare dependency undertaken for the Victorian Women's Housing Association estimated a \$10.5M saving in current and future welfare costs as a result of more secure and affordable living and improvements in children's development and participation in schooling.¹⁴ Children of community housing tenants typically attain a higher educational level than their parents;¹⁵
- **A secure base from which to take part in everyday community activities**, and to develop support networks as a result of being in one place and not having to move regularly in search of affordable rental accommodation.

Economic benefits

The economic benefits derived from Rental Housing Co-operatives include:

- significant economic benefit from the investment that co-operative members make in the governance, management and development of their co-operatives, contributed on an in-kind basis;
- an appreciation in the value of housing as a result of properties being well-cared for;
- tenant involvement in managing their co-operatives develops social networks, work-related and life skills, important precursors to further education and employment. *[In a recent Australian study, 59% of community housing tenants reported commencement or continuation of training after moving to community housing, and 50% reported an improvement in their job situation.¹⁶];*
- affordable rent for tenant members results in greater financial flexibility for low income households. *[When compared to private rental, it has been shown that this amounted to an additional \$2,548 of disposable income per annum for low income*

¹³ ibid

¹⁴ Victorian women's Housing Association, 2010

¹⁵ Ravi and Reinhardt, Netbalance 2011. The Social Value of Community Housing in Australia.

¹⁶ Ravi and Reinhardt, Netbalance 2011. The Social Value of Community Housing in Australia.

households in 2011, which can contribute to other household needs including food, education and health.^{17]}

Self-development, social and life skills

Rental Housing Co-operatives provide opportunities for self-development and learning social and life skills. The benefits of such opportunities include:

- developing the self-esteem, skills and confidence that can improve aspects of their co-operative members' lives, including gaining employment, enrolling in future education or undertaking roles of responsibility in other community organisations. The flow on effects to the children and wider community are significant;
- personal development skills, and training as a result of community capacity building activities undertaken by the co-operative; and,
- the formation of social, self-help and mutual support networks that can improve self esteem, dignity and reduce welfare dependency.

Responding to life-cycle needs

Co-operatives have the flexibility to respond to lifecycle needs. Engagement with tenant members assists in identifying opportunities to provide for different housing needs as people age or their life circumstances change. This can involve sourcing properties that allow for "downsizing" such as villa units and apartments, or larger properties that cater for larger migrant families. Similarly, through providing a stable base from which to access employment, Rental Housing Co-operatives can provide tenants with the opportunity to access other housing choices.

Innovation and enterprise

Co-operatives have demonstrated a capacity for innovation and creative responses to housing needs. Co-operatives of all sizes have implemented a range of innovative building programs and social initiatives. For example, the Harmony Village project in Dandenong, with 60 units of social housing, recently won the Australian Institute of Architects Victorian award for innovative design; and a combined Department of Human Services and co-

¹⁷ Ibid.

operative housing project developed five homes in Warragul and Leongatha based upon achieving design excellence for people with disabilities.

The Lakewood Co-operative in Ringwood that opened in 2011 is a joint initiative of Common Equity Housing Limited and Eastern Access Community Health. It aims to ensure residents are supported by local services to develop the skills and capacity to contribute positively to their local community. Lakewood has 80 apartments and houses 158 people including people on low incomes, people with mental illness and other disabilities, indigenous, elderly and unemployed people in 2 and 3 bedroom apartments for singles, couples and families. Whilst still very early in the project's development, a recent evaluation of its first year of operation found that a social value of \$3.78 was generated for every operating dollar invested in Lakewood, yielding a total social value of almost \$3M for one year.¹⁸

6.3 SECURITY OF TENURE, TENANT DIVERSITY AND A 'SENSE OF OWNERSHIP' – KEYS TO BOTH FINANCIAL AND SOCIAL SUSTAINABILITY

The sustainability of Rental Housing Co-operatives is underpinned by three core factors related to tenure. These must be preserved as a platform for future development of the Co-operative Rental Housing sector as a provider of social housing. They include:

- i) Security of tenure*
- ii) Tenant diversity*
- iii) Tenant ownership of the co-operative as members*

Security of tenure

Security of tenure provides the opportunity for personal pathways out of poverty and welfare dependence. It directly contributes to both the economic and social benefits of Rental Housing Co-operatives, and is critical to the long term success of this social housing model.

¹⁸ Netbalance, April 2012. Lakewood CMC, Social Return on Investment Evaluation, CEHL & EACH

The recent Anglicare Australia report (April 2012) noted that more households are renting for longer periods, and that security of tenure and affordability in the private rental market are major challenges for low income households.

There is strong evidence that security of tenure provides a basis for improving self-esteem and dignity, greater participation in community life and the establishment of social support networks, better health outcomes, and the reduction of intergenerational welfare dependency as well as supporting early childhood development and participation in schooling. This is an important outcome for the approximately 2,240 children, as well as for the individuals and families, in Rental Housing Co-operatives in Victoria.

Tenant diversity

A mix of lower household incomes is an important basis for a financially sustainable social housing system. Rental Housing Co-operatives are comprised of a range of lower income households with different income levels, including those who can pay more but find it difficult to participate in the private rental market or home ownership without significant financial stress as well as those on fixed and very limited incomes. The current structure for social housing allows rents to be established at 25% of assessable income plus Commonwealth Rent Assistance. An important benchmark for determining rent for low-income households has been that households in the lowest 40% of income should pay no more than 30% of their gross income on housing related costs. This helps to ensure that households have sufficient funds to meet other living costs and are not under financial stress.

Whilst Rental Housing Co-operatives have limited resources, they currently cater for a diverse range of tenants that are eligible for public housing including people from a wide range of cultural backgrounds and those with disabilities or special needs.

Inherent in the co-operative model, and one of its keys to success, is that co-operatives are made up of members that voluntarily choose to be part of an enterprise. The tenant selection process overseen by members of Rental Housing Co-operatives ensures that tenants are willing members of their co-operatives who are able to fully participate in the governance and development of their organisation.

Housing Co-operatives tend to be diversified across Victorian communities, being made up of homes that have been gradually spot-purchased or cluster built. This creates choice for

households, being able to find housing appropriate to their needs and life circumstances and has helped to 'normalise' social housing as an integrated part of local communities.

Tenant ownership of the co-operative as member

Tenant member ownership and mutual obligation that are core principles of co-operative societies is fundamental to the way that tenant members in Rental Housing Co-operatives understand their relationship to their homes and to the overall development and prosperity of their organisations. It is a key to well maintained and cared-for homes. It also provides additional resources by way of in-kind contributions that support the financial operations of co-operatives.

Co-operatives are enterprises that are established for a primary social purpose (in the instance of rental housing co-operative, to provide access to an affordable home) and develop the independent economic means to achieve that purpose.

Rental Housing Co-operatives are organised around the principles of co-operation including mutual obligation and active participation in the co-operative for those members that are able. As members of co-operatives, tenants are encouraged to fulfill certain obligations to contribute to the operation and development of the co-operative. They participate in running the organisation, where they are able to learn skills and take responsibility for the management of the co-operative's housing.

7. WHAT IS NEEDED?

The Rental Housing Co-operatives sector believes it has a strong role to play in Victoria's future provision of social housing for low-incomes households, but it will need:

- ✓ **Support for long term sustainability**
- ✓ **Options to improve housing supply**
- ✓ **Maintenance of co-operative identity and autonomy**
- ✓ **Partnership with Government**
- ✓ **Flexibility in tenant mix to maintain financial sustainability**
- ✓ **Security of tenure for tenant members**

SUPPORT FOR LONG TERM SUSTAINABILITY

The Rental Housing Co-operatives sector seeks to maintain a diverse and adaptable range of social housing providers. There needs to be the continued opportunity for diverse models of co-operatives to increase their scale of operations in response to the demand for affordable housing for low income households in Victoria. At the same time, there needs to be flexibility for smaller and longstanding co-operatives to maintain their autonomy and identity, provided they continue to demonstrate strong financial and social sustainability.

The two objectives (KPMG) that frame the Government's interest in developing supply side mechanisms to improve the availability of affordable housing are:

- *protecting and enhancing social housing resources for those most in need of assistance; and,*
- *capturing the potential for growth in social housing opportunities.*

Achieving the first objective should not be at the expense of capturing the potential for the growth of social housing stock through existing financially and socially viable models. The issues associated with providing housing for those most in need have accumulated as a result of a lack of preventative strategies and an undersupply of social housing stock over a long time period. Solutions that assist in meeting the demand for housing for those most in need require a longer term strategy that seeks to:

- *prevent further growth in demand for housing amongst people with high needs by providing access to affordable housing before people have fallen through the safety net;*
- *improves the social and economic wellbeing of people with high needs through tailored housing and support programs as well as integration with mainstream policies and programs to redress structural disadvantage;*
- *provide sufficient housing for those who are homeless and in crisis.*

Rental Housing Co-operatives are well placed to support growth in social housing that will meet the need for affordable housing for low income Victorian households whilst also preventing people from falling through the safety net and becoming high need clients of public housing.

OPTIONS TO IMPROVE HOUSING SUPPLY¹⁹

The sector believes that the growth of social housing stock (both public housing and community housing) is critical to meeting the demands for secure and affordable housing for low income households, for people in housing crisis and those with high support needs that impact on their housing situation.

The current housing supply problem requires a long term, multi-faceted strategy to address the current shortage of social housing.

The KPMG Report has assessed three main strategies for improving supply:

- a) Development models***
- b) Transfer and outsourcing models***
- c) Financing models***

a) Development models

Rental Housing Co-operatives are interested in opportunities to expand their portfolios through the types of development models outlined in the KPMG Report. However, there are variations in the capacity of individual co-operatives to participate directly in Development PPP projects given the complexity that some projects require and limited experience in property development. To take full advantage of the opportunities through development partnerships or agreements, there first needs to be an emphasis on building the capacity of Rental Housing Co-operatives through providing access to skills related to property development, procuring finance, apportioning risk and profit, and design.

¹⁹ KPMG for Victorian Department of Human Services

b) Transfer models

Transfer Model 1 – Community Housing Stock Transfer

Rental Housing Co-operatives would consider property transfers of existing public housing as one way of increasing their growth potential. In recent years, with access to title and capital grants, the sector has made significant gains. Common Equity Housing Limited has been able to leverage the equity in its properties to raise finance to grow its portfolio of housing stock by over 25 per cent. This has also increased the capacity to diversify the property portfolio to include smaller properties for single person households and older tenants.

The main source of income for the independent Rental Housing Co-operatives is tenant members rent payments for properties leased from Government. This revenue source is insufficient to provide for growth. Without ownership through title to these properties, the Rental Housing Co-operatives have limited capacity to leverage finance for growth.

Property transfers would need to be undertaken in a way that builds upon the existing strengths of co-operatives, and would require terms to be agreed between Government and Rental Housing Co-operatives that could include:

- a significant percentage of new tenants meeting public housing eligibility criteria;
- tenants being assessed as suitable to be members of the rental housing co-operative (in line with the Co-operatives Act 1996);
- co-operatives having the capacity to achieve mixed tenancies to underpin the financial viability of their enterprises;
- reaching agreement about the proportion of tenants from the public housing waiting list (particularly those with high needs) that could be accommodated and supported in the co-operative.

There needs to be careful consideration of the risks associated with transferring properties to Rental Housing Co-operatives. Transferring significant public housing stock with accumulated property maintenance needs or a high number of tenants with “high needs” could pose a threat to the viability of community housing providers and potentially undermines the strengths of a model that is working well.

Transfer strategies would also need to be mindful of the objectives of particular co-operatives where their purposes are established to provide housing for a particular community or within a geographic area.

Transfer Model 3 - Outsourcing maintenance and management

The sector would be interested in further discussions regarding the management of Government properties that would be based upon the *Maintenance and Management Outsourcing Model* outlined in the KPMG Report.

Future management outsourcing arrangements would 'leverage' the significant existing expertise of rental housing. Outsourcing of stock arrangements would provide opportunities for increased economies of scale and cash flow that would support the further growth of the sector. One option could be the outsourcing of partial management of Government owned housing stock, similar to the present Housing Provider Framework Lease through which the Government is responsible for capital improvements funded from an Asset Management Fee paid from rental income received by the co-operative. A second, less expensive option for Government, and generally preferred by the sector, would involve full management of Government owned stock, including responsibility for capital improvements, with the co-operative retaining all rental income.

c) Financial models

The availability, complexity and cost of raising finance are major issues for community housing providers wishing to grow their stock portfolios. Rental Housing Co-operatives (and community housing providers in general) have been frustrated by a lack of consistency in Government policy in terms of access to growth opportunities, and by the limited knowledge and understanding of community housing models within the banking and finance sector.

There is need for further investigation by Government in co-operation with the community housing sector of the financing models outlined in the KPMG Report i.e. securitisation, loan guarantees, bond issues, sale and leaseback.

Other important considerations

Improving the supply of social housing includes the need to:

- Provide greater certainty to community housing and private sector partners by developing a clear strategic and long term vision for social housing; and, greater clarity to the role of Government and Department of Human Services in the provision of social housing.
- Require new residential developments (particularly where development rights are granted on public land) to include a proportion of social housing. This could include the proposed redevelopment of Fisherman's Bend and EGate. Government departments currently operate on the premise of retaining the market value of land assets. This land could be made available for mixed private-social housing developments at a lower price to leverage social housing outcomes. This could be a very cost effective strategy for growing social housing if a more comprehensive and longer term approach to accounting for the costs and benefits to government and the broader community were applied.
- Strengthen the capacity of the community housing sector including Rental Housing Co-operatives to:
 - *deliver social and economic benefits that can reduce the need for welfare support and crisis accommodation and increase the potential for social and economic contribution to the community;*
 - *build the professionalism and skills of the sector in areas such as property management, development partnerships and finance.*
- Support the development of a more diverse range of social housing models that draw upon the expertise community housing providers have developed in social housing.
- Provide solutions for particular sectors or for specific communities or groups e.g. women at risk with children, older ethnic communities.
- Strengthen the National Affordable Housing Agreement to:

- attract investment in social housing building on the success of the recent *Nation Building Economic Stimulus Plan* social housing initiative and the National Rental Affordability Scheme. These initiatives have provided a significant injection to social housing stock in a very short amount of time.
- more effectively target current taxation and grants arrangements in the housing market. The most important of these is to redress the failure of negative gearing opportunities for investors and taxpayers to produce more and affordable housing. Negative gearing needs to be restructured and targeted to longer term investment in the development affordable and social housing.
- develop a business model that effectively integrates the beneficial features of tax concessions, exemptions and subsidies for not for profit and charitable organisations so that these benefits are optimised, and to provide greater clarity and incentives for social housing delivery. This will strengthen and provide a more secure business model for the operations of social housing providers, provide more certainty for developer partners, banks and financiers, and will ensure that concessions deliver optimum social and economic return for governments.

MAINTENANCE OF CO-OPERATIVE IDENTITY AND AUTONOMY

Co-operatives are diverse, have their own identities and sometimes a special focus upon providing for particular local geographic areas or population groups such as older persons or ethnic communities. They are enterprises developed out of a long tradition of mutually beneficial societies established to serve the needs of their members. They are not set up as welfare services or a form of crisis housing, although member needs are an important priority. They have the capacity to operate an effective and efficient business, and to create positive environments for staff and tenant members.

Active tenant member participation in governance has delivered significant long-term benefits for members and for government in terms of both economic and social outcomes, and the efficient use of government subsidies to low income households.

These features of co-operatives underpin their financial viability and the social value they create for the broader community and could be further embraced as a model for the provision of social housing.

A PARTNERSHIP WITH GOVERNMENT TO RENEW THE SOCIAL HOUSING SYSTEM

It is important that the Co-operative Rental Housing sector and Government work together to develop the vision for a social housing system that meets Victoria's future needs. The Rental Housing Co-operatives Sector wishes to engage with Government to develop mutually beneficial agreements regarding its ongoing role as a provider of social housing.

Areas for future consideration in those agreements include:

- ***the creation of further opportunities for growth and improved cash flow through outsourcing management and maintenance agreements***

A revised Housing Framework should reinforce the unique position of community housing organisations to grow the affordable housing stock through **Capital Grants**. Capital funding of projects is the most obvious example of how growth has been achieved for the past few years. Through the Victorian Government's *Social Housing Investment Fund* and the Federal Government's *Nation Building Stimulus Package*, the sector has expanded considerably in the last three years, with over 2,000 new properties coming online. This has also enabled community housing organisations to develop new capacities in financial management, project delivery, asset management, human resources as well as legal and risk management.

It should also seek to formulate settings for appropriate **transfers of housing stock** to the sector. The previous Victorian Government provided for \$475M worth of housing stock transfers to the community housing sector (some 1,200 properties in the 2009-2010 Budget). The Government should proceed with this transfer. When a 'small scale' transfer of 575 properties occurred in 2008 (of properties already under community housing sector management), there were some difficulties associated with the property maintenance and asset renewal liabilities, but these were met by the sector. As a consequence, community housing organisations have been able to improve the efficiency of their operations 'through scale', there has been a renewal of housing stock that was transferred and some growth has been 'leveraged'.

Whilst there is significant scope for stock transfers to occur, the sector nevertheless requires assurance that the financial viability of their businesses will not be put at risk

by the Government seeking to transfer significant DHS stock liabilities as well as the imposition of unsustainable contractual obligations and unrealistic leveraging targets.

- ***improvements to the Housing Provider Framework to more effectively manage housing stock and ensure high quality tenant services***

A revised Housing Framework should support the important role of Rental Housing Co-operatives in managing DHS properties, and ensure that fair and equitable lease arrangements are set in line with government policy and legislation. The HPF should be a key element in a partnership between DHS and the sector.

In general, the Rental Housing Co-operatives sector supports the continuation of HPF leasing agreements. However, different options could be considered in terms of revised leasing agreements and any revision of the HPF Lease needs to be an outcome of good faith negotiations between the community housing sector as a whole and DHS.

- ***Government support to build the capacity of Rental Housing Co-operatives as they grow and require more professional skills to manage the increased complexity of the regulatory environment***
- ***fair and equitable terms that reflect Rental Housing Co-operatives Sector's important role in providing social housing for people eligible for public housing and on the public housing waiting list.***

FLEXIBILITY IN TENANT MIX TO MAINTAIN SUSTAINABILITY

A mix of tenants is critical to ensuring the financial viability of Rental Housing Co-operatives. Co-operatives aim to include households across a broader income range as a way of supporting their financial and social sustainability. Nevertheless, almost all current tenant members are eligible for public housing and a high proportion will have been selected from the public housing waiting list. Household rents are structured around the capacity of low income households to pay, and ensuring an appropriate match of tenant to property makes for an optimum use of housing resources.

SECURITY OF TENURE FOR TENANT MEMBERS

Security of tenure is crucial for maintaining access to affordable housing and improving the economic and social circumstances of lower income households. Stable and secure housing provides the basis for living independently, and with dignity; it is the basis from which to develop a sense of wellbeing and to pursue personal and employment skills development that allows individuals to fully and equally participate in society. It helps to reduce welfare dependency, increases self-help, and leads to economic participation and other forms of contribution to the community. Security of tenure is vital to the ability of Rental Housing Co-operatives to continue to operate the programs that are a key to personal development and improved education, training and employment outcomes for tenant members.

The *Netbalance* report: *Lakewood CMC Social Return on Investment Evaluation* noted the importance of security of tenure in the context of a community housing development in Ringwood using a co-operative model.

“Ultimately, the goal of housing is to build a foundation for a dignified life. But having a house does not create a person’s future alone. Housing policies have substantial impacts on people’s ability to build a life, including through finding a job, caring for children and family, and contributing to the life of the community. Rental restrictions, such as limited tenure, will not solve often complicated problems. Tenants should not be penalised for aspiring to reach their potential, and should be able to count on the support they need to reach their aspirations. Program and policy solutions that will in fact enhance economic and social participation include:

- Integrating public housing with other cross-sector services, to address tenants’ long-term issues related to health, education, family instability and employment support.*
- Relaxing income eligibility test requirements for applicants on the public housing waiting list to encourage connections to employment after the initial eligibility criteria is met.*
- Removing barriers to economic participation.”*

Appendix 1

Definitions of Types of Housing Provided by the State

Victorian Government, Pathways to a Fair and Sustainable Social Housing System, Public Consultation Discussion Paper, April 2012.

Public Housing	Housing owned and managed by the State through the Director of Housing. The Director of Housing is the landlord to Public Housing tenants
Community Housing	Housing managed by not for profit Registered Housing Associations and Providers for affordable housing purposes
Social Housing	Social housing is the term used to describe both public and community housing

Appendix 2

Victorian Housing Act 1983

Objects

- (a) to ensure that every person in Victoria has adequate and appropriate housing at a price within his or her means by encouraging -
 - (i) the provision of well maintained public housing of suitable quality and location;
 - (ia) the participation of non-profit bodies in the provision of well maintained, affordable rental housing of suitable quality and location;
 - (ii) the distribution, according to need, of Government housing financial assistance;
 - (iii) the promotion of the orderly planning, assembly and development of land;
- (b) to expand and develop the role of the public sector in the provision of housing;
- (c) to promote cost effectiveness in the provision of housing;
- (d) to promote the integration of public and private housing;
- (e) to provide in the public sector a variety of housing types in various locations;
- (ea) to provide a regulatory framework to encourage the development of rental housing agencies serving the housing needs of low-income tenants by providing for the registration of those rental housing agencies and the regulation and monitoring of registered agencies;
- (f) to promote security and variety of tenure;
- (g) to seek the participation of tenants and other community groups in the management of public housing and non-trading co-operatives engaged in the provision of rental housing to their members;
- (h) to promote consultation on major housing policy issues with all persons and groups of persons involved in housing;
- (i) to monitor the house building and housing finance industries in both the public and private sectors and to assist those industries to achieve growth and stability;
- (j) to co-ordinate the provision of all necessary community services and amenities ancillary to public housing;
- (l) to maximize employment opportunities in the housing sectors;
- (m) to give due regard to the environmental impact of the activities of the public housing sector;
- (n) to provide a safe and satisfying work environment for persons employed in the public housing sector;
and,
- (o) to promote public awareness of the role and functions of the public housing sector.

Appendix 3

Total Present Value of Community Housing Benefits

The Social Value of Community Housing in Australia. Ravi and Reinhardt, Netbalance 2011

Impact Category	Outcome	Population Affected	Number Affected	Financial Proxy	\$ Impact per person	Year 1 \$ Impact after adjustments
Economic	Greater financial flexibility for low-income households as a result of alleviation from "housing stress"	92.5% of Community Households that fall into the low-income category	34,996	Increased Disposable Income for tenants as compared with Private Rental	\$ 2,548	\$ 78,468,366
	Enhanced educational performance for children of community housing tenants	60% of Children in community housing Under 15 years of age	14,219	Annual additional earning potential for Year 12 graduates as compared to those earning Year 10 certificate or below	\$ 3,016	\$ 20,584,786
Educational	Community housing tenants are more likely to pursue educational or training opportunities that will improve their employment prospects	Community housing residents who are currently unemployed but actively looking for work (9% of community housing tenants)	4,700	Improved earning potential as measured by part-time employment rates at minimum wage	\$ 17,784	\$ 54,166,509
	Improved overall health	73% of households in community housing (excludes the 27% of the population receiving disability support payments)	55,424	Average annual spend on health services	\$ 1,872	\$ 20,128,217
Health	Reduced demand for health services for 'heavy-users' and disabled populations	27% of CH residents receiving disability support payments	20,499	Reduced spend on health services for 'heavy users' after moving into public housing	\$ 640	\$ 2,623,908
	Greater tenant empowerment allows CH residents to have more control of their residential and personal lives	Community housing tenants who participate in maintenance and admin activities	-	Not Quantified	\$ -	\$ -
Community Inclusion	Emergence of support networks foster self-reliant and independent communities	All community housing tenants	-	Not Quantified	\$ -	\$ -
Total Value per Year						\$ 175,971,786
Total Present Value of Community Housing Benefits						\$ 664,828,780